

# **Watlington Waterworks Limited**

Annual Report and  
Consolidated Financial Statements  
**December 31, 2009**

# **Watlington Waterworks Limited**

Directors Report of Shareholders

**For the year ended December 31, 2009**

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Expectations for the year 2009 were modest. There were no regularly scheduled cruise ships to berth in Hamilton, a global recession was in progress, and in general, with tourism in a slump, a realistic forecast was for net earnings to be less than the previous year. However, external and internal factors favourably converged to produce a record year for the company.

A mid-year drought created very high demand for our products and services leading to a very strong first half-year performance. A record number of new water services were installed as the Utility Division shifted its focus to connecting new customers after several years of primary water mains expansion. This made a significant contribution to Bermuda Waterworks revenue stream. Other favourable operating trends were reduced fuel and fuel surcharge costs relative to the previous year's record high fuel costs combined with higher desalting operational efficiencies that were achieved.

On July 1, 2009, the Utility Division introduced a new tariff structure incorporating a discount system. The discount and tariff were intended to be revenue neutral with no change in the net price for water. The aim was to create a financial incentive to pay water bills by a deadline date. However, there was a higher than anticipated percentage of customers who did not take the discount offered. The new tariff and discount consequently became revenue positive. The number of customers taking the discount offered is trending up. It is therefore expected that the discounted tariff schedule will approach a revenue neutral position this year.

The overwhelming majority of capital investment in recent years has been allocated to infrastructure strengthening in the Utility Division. This is expected to continue. The Bottled Water Division's production, storage and distribution assets have provided satisfactory service for a number of years, and have been fully depreciated. The Company therefore carries a relatively low asset value in the Bottled Water Division while generating substantial revenue. This very favourable situation will change in the future when the old facilities and equipment have to be replaced. Future facilities and equipment will require substantial capital investment. There are no plans to replace or upgrade any of the existing fully depreciated Bottled Water Division assets this coming year.

As the Bermuda Waterworks' Utility Division goes, so goes the Consolidated Group. This is because it provides the dominant revenue stream. This is not going to change for the near future. The Utility Division is off to an abysmal start to 2010. Demand has been incredibly low due to the extremely poor sustained winter weather experienced this year. Demand in general for our products and services has been well below traditional seasonal values, and for the first time ever January sales were less than February's.

The first Quarter of 2010 has been very weak, tourism remains in a deep slump, the construction industry is declining, and the backwash from the global recession is rumbling on. While there will be a regular cruise ship visiting Hamilton this summer, we do not expect this to counter the apparent negatives. Budgeting for this year has been extremely difficult and it is not forecast to be a strong year. Net earnings for 2010 could be down significantly.

# Watlington Waterworks Limited

Unaudited

December 31, 2009

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## Summaries of the last 5 financial years

	Year ended December 31				
	2009	2008	2007	2006	2005
	\$	\$	\$	\$	\$
Revenue	10,601,159	10,073,794	9,977,561	9,612,674	9,058,987
Net earnings	2,454,912	1,980,400	2,320,671	2,056,588	2,135,670
Dividends	421,648	421,111	401,064	445,156	473,887
Shareholders' equity	18,147,177	16,100,883	14,530,331	12,569,831	14,739,360
Total assets	18,906,359	16,886,648	15,634,102	13,709,726	15,595,751

## Per share amounts:

Net earnings	2.33	1.88	2.20	2.16	1.68
Net earnings					
- adjusted for 2007 bonus issue	2.33	1.88	2.20	1.95	1.56
Dividends	0.40	0.40	0.38	0.40	0.37
Shareholders' equity	17.20	15.28	13.80	13.19	11.58

## Directors share interests and service contracts

Pursuant to Regulation 6.8(3) of Section 11B of the Bermuda Stock Exchange Listing Regulations, the total interest of all directors and officers of the Company as at December 31, 2009 was 249,655 (2008 - 242,184) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer, except for the managing director who qualifies under the employee share purchase plan.

There are no contracts with the Company in which a director has a material interest, either directly or indirectly.

**Consolidated Financial Statements**  
**December 31, 2009**

April 13, 2010

**Auditors' Report**

**To the Shareholders of  
Watlington Waterworks Limited**

We have audited the consolidated balance sheet of **Watlington Waterworks Limited** as at December 31, 2009 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

*PricewaterhouseCoopers*

**Chartered Accountants**

Street address: Dorchester House, 7 Church Street, Hamilton HM 11, Bermuda

A list of partners can be obtained from the above address.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers (a Bermuda partnership) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

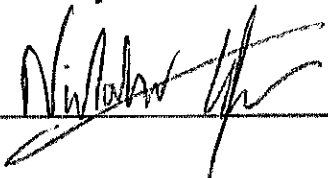
# Watlington Waterworks Limited

Consolidated Balance Sheet

As at December 31, 2009

	2009 \$	2008 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,264,937	3,291,217
Investments	1,500,000	-
Accounts receivable	849,045	1,304,362
Inventories (note 6)	1,127,269	1,107,813
Prepaid expenses and deferred costs	133,317	135,580
	<u>7,874,568</u>	<u>5,838,972</u>
<b>Property, plant and equipment (note 3)</b>	<u>11,031,791</u>	<u>11,047,676</u>
<b>Total assets</b>	<u>18,906,359</u>	<u>16,886,648</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	753,270	779,100
Deposits held	5,912	6,665
	<u>759,182</u>	<u>785,765</u>
<b>Shareholders' equity</b>		
Share capital	1,054,919	1,053,579
Share premium	1,369,896	1,358,206
Capital reserve	7,000,000	7,000,000
General reserve	1,000,000	1,000,000
Retained earnings	7,722,362	5,689,098
	<u>18,147,177</u>	<u>16,100,883</u>
<b>Total shareholders' equity (note 4)</b>	<u>18,147,177</u>	<u>16,100,883</u>
<b>Total liabilities and shareholders' equity</b>	<u>18,906,359</u>	<u>16,886,648</u>

Approved by the Board of Directors

  
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Director

  
\_\_\_\_\_  
Director

The accompanying notes are an integral part of these consolidated financial statements.

# Watlington Waterworks Limited

Consolidated Statement of Earnings and Retained Earnings  
For the year ended December 31, 2009

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	2009 \$	2008 \$
<b>Income</b>		
Water sales	9,417,279	8,922,213
Other operating revenues	1,037,699	1,032,781
Rentals	82,815	84,015
Interest	63,366	34,785
	<hr/> 10,601,159	<hr/> 10,073,794
<b>Expenses</b>		
Plant operation and distribution	4,944,220	5,029,596
Administration and general	2,207,714	2,072,311
Depreciation	994,313	991,487
	<hr/> 8,146,247	<hr/> 8,093,394
<b>Net earnings for the year</b>	2,454,912	1,980,400
<b>Retained earnings – Beginning of year</b>	<hr/> 5,689,098	<hr/> 4,129,809
	8,144,010	6,110,209
Dividends declared	<hr/> (421,648)	<hr/> (421,111)
<b>Retained earnings – End of year</b>	<hr/> <u>7,722,362</u>	<hr/> <u>5,689,098</u>

The accompanying notes are an integral part of these consolidated financial statements.

# Watlington Waterworks Limited

Consolidated Statement of Cash Flows  
For the year ended December 31, 2009

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	2009 \$	2008 \$
<b>Cash flows from operating activities</b>		
Net earnings for the year	2,454,912	1,980,400
Add items not affecting cash:		
Depreciation	994,313	991,487
Bad debts provision	35,277	28,041
Changes in items related to operations:		
Accounts receivable	420,040	(340,127)
Inventories	(19,456)	(100,871)
Prepaid expenses and deferred costs	2,263	(15,337)
Accounts payable and accrued liabilities	(25,830)	(316,374)
Deposits held	(753)	(1,632)
Net cash from operations	<u>3,860,766</u>	<u>2,225,587</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(978,428)	(752,605)
Investments - term deposits	<u>(1,500,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(2,478,428)</u>	<u>(752,605)</u>
<b>Cash flows from financing activities</b>		
Proceeds of shares issued	13,030	11,263
Dividends paid	<u>(421,648)</u>	<u>(421,111)</u>
Net cash used in financing activities	<u>(408,618)</u>	<u>(409,848)</u>
<b>Increase in cash and cash equivalents</b>	973,720	1,063,134
<b>Cash and cash equivalents - Beginning of year</b>	<u>3,291,217</u>	<u>2,228,083</u>
<b>Cash and cash equivalents - End of year</b>	<u>4,264,937</u>	<u>3,291,217</u>

The accompanying notes are an integral part of these consolidated financial statements.



# Watlington Waterworks Limited

Notes to Consolidated Financial Statements

December 31, 2009

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## 1. *Nature of business*

Watlington Waterworks Limited ("the Company") and Bermuda Waterworks Limited ("the Subsidiary") (note 2(b)) are incorporated under the laws of Bermuda and are primarily engaged in the production and distribution of water and purification of drinking water for sale at the retail and wholesale level. The group is also engaged in the provision of customer services, plumbing supplies and the supply of coolers for sale and rental.

## 2. *Significant accounting policies*

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The significant accounting policies adopted by the Company are as follows:

### (a) **Basis of presentation**

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates.

### (b) **Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bermuda Waterworks Limited. All significant intercompany transactions and balances are eliminated on consolidation.

### (c) **Water sales**

Water sales comprise wholesale water and bottled water sales. Wholesale water sales are based on consumption recorded by meter readings taken monthly during the year.

### (d) **Other operating revenues**

Other operating revenues comprise income from sales of plumbing supplies, sales and rental of water coolers and related equipment and utility connection fees.

### (e) **Property, plant and equipment**

Freehold land is stated at cost. Property, plant and equipment other than freehold land are being depreciated on a straight-line basis over their estimated useful lives, which generally vary from 3 to 40 years.

### (f) **Inventories**

Inventories which comprise essential utility parts, plumbing supplies and bottled water supplies are carried at the lower of average cost and net realisable value.

### (g) **Fair values of financial instruments**

Fair values of financial instruments are disclosed in the notes to the financial statements when they differ from the carrying values. Where amounts receivable and payable are subject to normal credit terms, their carrying values are used as an approximation of their fair values.

### (h) **Cash and cash equivalents**

Cash and cash equivalents include deposits having a maturity of less than three months from the date of purchase.

### (i) **Investments**

Investments consist of term deposits having a maturity of more than 3 months from the date of purchase.

# Watlington Waterworks Limited

Notes to Consolidated Financial Statements

December 31, 2009

(j) **Pension plan**

The Company sponsors a defined contribution pension plan (the "Plan") covering all eligible employees. The cost of the Plan is expensed as related benefits are earned by the employees. The Company makes monthly contributions in accordance with the Plan Agreement to the employees individual accounts, which are administered by an insurance company pursuant to and in accordance with the National Pension Scheme (Occupational Pensions) Act.

(k) **Adoption of new accounting standards**

**Assessing going concern**

The Canadian Institute of Chartered Accountants (the "CICA") amended Handbook Section 1400 "General Standards of Financial Statement Presentation" to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. There was no impact from adoption of this accounting policy for the year ended December 31, 2009.

### 3. **Property, plant and equipment**

Fixed assets comprise:

	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>2009 Net</b>	<b>2008 Net</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Freehold land	416,683	-	416,683	416,683
Production and distribution plant and facilities	20,455,869	10,131,463	10,324,406	10,253,633
Vehicles	621,243	573,905	47,338	94,510
Office equipment, computers, and rental equipment	1,379,629	1,156,623	223,006	275,198
Construction in progress	20,358	-	20,358	7,652
	<b>22,893,782</b>	<b>11,861,991</b>	<b>11,031,791</b>	<b>11,047,676</b>

As at December 31, 2009, the Company had capital commitments in respect of plant and equipment of \$679,500 (2008 - \$48,958). These commitments will be met from operations.

### 4. **Shareholders' equity**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Authorised - 2,000,000 shares of the par value of \$1.00 each	<b>2,000,000</b>	<b>2,000,000</b>
Issued and fully paid - 1,054,919 (2008 - 1,053,579) shares of the par value of \$1.00 each	<b>1,054,919</b>	<b>1,053,579</b>

The net asset value attributable to each share, calculated on the basis of the book value as disclosed in the Company's consolidated balance sheet as at December 31, 2009 was \$17.20 (2008 - \$15.28).

**Watlington Waterworks Limited**  
Notes to Consolidated Financial Statements  
December 31, 2009

(a) **Changes in shareholders' equity**

	Share capital \$	Share premium \$	Capital reserve \$	General reserve \$	Retained earnings \$	Total \$
Balance, December 31, 2007	1,052,629	1,347,893	7,000,000	1,000,000	4,129,809	14,530,331
Net income for the year	-	-	-	-	1,980,400	1,980,400
Issuance of shares (note 4 (b))	950	10,313	-	-	-	11,263
Dividend paid	-	-	-	-	(421,111)	(421,111)
Balance, December 31, 2008	1,053,579	1,358,206	7,000,000	1,000,000	5,689,098	16,100,883
Net income for the year	-	-	-	-	2,454,912	2,454,912
Issuance of shares (note 4 (b))	1,340	11,690	-	-	-	13,030
Dividend paid	-	-	-	-	(421,648)	(421,648)
Balance December 31, 2009	1,054,919	1,369,896	7,000,000	1,000,000	7,722,362	18,147,177

(b) **Employee share purchase plan**

In June 1999, the Company introduced an employee share purchase program whereby employees with a minimum of one year's continuous service may subscribe to purchase up to a maximum of 1,000 common shares in any one calendar year. The purchase price of the common shares is 85% of the market price on the plan's subscription date. The shares purchased are issued from authorised, unissued share capital. Employees are restricted from selling the shares for a period of one year from the issuance date. During the year ended December 31, 2009, employees subscribed for and were issued 1,340 common shares for proceeds of \$13,030 (2008 - 950 shares for proceeds of \$11,263). The excess of the purchase price over the par value of the shares is recorded as share premium (see (c) below).

(c) **Share premium**

The share premium balance relates to the excess of the purchase price over par value of shares of the Company.

(d) **Capital reserve**

The amount transferred from retained earnings to capital reserve represents the Company's investment in infrastructure renovations and improvements, including pipelines and reservoirs, in order to maintain the permanent capital of the Company and has been approved by the Board of Directors.

(e) **General reserve**

General reserve is an appropriation from retained earnings as a contingency for unexpected future expenditures and has been approved by the Board of Directors.

**5. Financial instruments**

The estimated fair values of the Company's cash and cash equivalents, investments, accounts receivable, accounts payable and accrued liabilities and deposits held approximate their carrying values.

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, investments and accounts receivable.

# Watlington Waterworks Limited

Notes to Consolidated Financial Statements

December 31, 2009

Cash and cash equivalents and investments consist mainly of cash deposits. The Company has deposited the cash and cash equivalents and investments with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company's credit risk with respect to its accounts receivable is minimised by the Company's large customer base, which covers consumer and business sectors in Bermuda. The Company follows a programme of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains provisions for potential credit losses and any such losses to date have been within management's expectations.

Accounts receivable consists of the following:

	2009 \$	2008 \$
Accounts receivable	1,021,282	1,441,322
Allowance for doubtful debts	(172,237)	(136,960)
	<u>849,045</u>	<u>1,304,362</u>

## 6. Inventories

	2009 \$	2008 \$
Spares and production parts	749,898	761,800
Goods for resale	304,605	257,290
Water bottling supplies	72,766	88,723
	<u>1,127,269</u>	<u>1,107,813</u>

The cost of inventories recognised as an expense and included in plant operation and distribution expenses is \$604,619 (2008 - \$740,876).

## 7. Capital disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to enable the internal financing of capital projects and working capital needs, thereby facilitating its expansion, to maintain a strong capital base so as to maintain investor, creditor and market confidence and to provide an adequate return to shareholders.

The Company's capital is comprised of shareholders' equity. The Company's primary uses of capital are to fund increases in non-cash working capital, along with capital expenditure for new production processes and distribution networks. The Company currently funds these requirements out of its internally generated cash flows. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders. The Company is not subject to any externally imposed capital requirements.

# Watlington Waterworks Limited

Notes to Consolidated Financial Statements

December 31, 2009

## 8. Segmentation disclosures

### (a) Description

The principal activity of the Company is the production and distribution of water. There are two primary revenue earning divisions, the Utility Division and the Bottled Water Division. The Utility Division distributes drinking water through a network of underground pipelines to the central and western parishes of Bermuda. The Bottled Water Division manufactures the Pure Water product which is distributed throughout Bermuda and is sold in supermarkets and grocery stores and from the Company's premises and is also delivered directly to customers' premises.

### (b) Income and expenditure by division

	2009				2008			
	Utility \$	Bottled Water \$	Other \$	Total \$	Utility \$	Bottled Water \$	Other \$	Total \$
<b>Income</b>								
External revenues	6,241,063	3,752,222	461,693	10,454,978	5,768,605	3,730,649	455,740	9,954,994
Intersegment revenues	53,656	-	-	53,656	50,992	-	-	50,992
Rentals	-	-	82,815	82,815	-	-	84,015	84,015
Interest	-	-	63,366	63,366	-	-	34,785	34,785
<b>Total revenue</b>	<b>6,294,719</b>	<b>3,752,222</b>	<b>607,874</b>	<b>10,654,815</b>	<b>5,819,597</b>	<b>3,730,649</b>	<b>574,540</b>	<b>10,124,786</b>
<b>Expenditures</b>								
External costs	3,815,608	2,648,970	687,356	7,151,934	3,781,633	2,688,341	631,933	7,101,907
Depreciation	792,142	79,345	122,826	994,313	783,935	104,449	103,103	991,487
Intersegment expenditure	-	53,656	-	53,656	-	50,992	-	50,992
<b>Total expenditure</b>	<b>4,607,750</b>	<b>2,781,971</b>	<b>810,182</b>	<b>8,199,903</b>	<b>4,565,568</b>	<b>2,843,782</b>	<b>735,036</b>	<b>8,144,386</b>
<b>Net profit by division (segment)</b>	<b>1,686,969</b>	<b>970,251</b>	<b>(202,308)</b>	<b>2,454,912</b>	<b>1,254,029</b>	<b>886,867</b>	<b>(160,496)</b>	<b>1,980,400</b>

External revenues for the Utility Division include connection fees and for the Bottled Water Division sales and rentals of coolers and related equipment are included. Intersegment revenues and expenditure refer to water supplied by the Utility Division to the Bottled Water Division and further processed to make the Pure Water product. This supply is billed at normal business rates.

Administrative costs have been charged to reporting segments on an actual basis wherever possible. The residue of non-allocable administrative expenditure is allocated to segments on an estimated usage basis.

### (c) Non-reportable segments

Revenue includes sales from the Company's plumbing supplies retail outlet, external rentals from the Company's properties and interest on invested funds. Expenditure includes the operating costs of the Plumbing Store, depreciation on equipment used jointly by all divisions of the Company, e.g. computer hardware and software, and unallocated administrative costs.

# Watlington Waterworks Limited

Notes to Consolidated Financial Statements

December 31, 2009

(d) **Assets and expenditure on capital assets by division (segment)**

Total assets for reportable segments was \$12,313,191 (2008 - \$12,696,200). This is comprised as follows:

	2009 \$	2008 \$
Utility	11,635,900	11,872,452
Bottled Water	677,291	823,748
	<u>12,313,191</u>	<u>12,696,200</u>

Expenditure on capital assets for reportable segments is as follows:

	2009 \$	2008 \$
Utility	873,821	488,452
Bottled Water	17,091	63,163
	<u>890,912</u>	<u>551,615</u>

(e) **Reconciliation of revenues, assets and capital asset expenditure**

	2009 \$	2008 \$
(i) <b>Revenues</b>		
Total revenue for reportable segments	10,046,941	9,550,246
Other revenues	607,874	574,540
Elimination of intersegment revenues	(53,656)	(50,992)
Total revenues	<u>10,601,159</u>	<u>10,073,794</u>
(ii) <b>Assets</b>		
Total assets for reportable segments	12,313,191	12,696,200
Other assets	6,593,168	4,190,448
Total assets	<u>18,906,359</u>	<u>16,886,648</u>
(iii) <b>Capital asset expenditure</b>		
Total capital asset expenditure for reportable segments	890,912	551,615
Other capital asset expenditure	87,516	200,990
Total capital asset expenditure	<u>978,428</u>	<u>752,605</u>

**Watlington Waterworks Limited**  
Notes to Consolidated Financial Statements  
December 31, 2009

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(f) **Other expenditure (non-cash)**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Bad debts: Utility	41,349	20,020
Bottled Water	7,338	8,318
	<b>48,687</b>	<b>28,338</b>

These amounts are included in external costs in (b) above.